

An Institutional Logics Perspective on Executive Remuneration in Anglo-Saxon Countries

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Abstract

Purpose: Corporate Logic and Investor Logic are the two dominant institutional logics of corporate governance in Anglo-Saxon countries (Lok, 2010; Zajac and Westphal, 2004). Corporate Logic portrays executives as trustworthy professionals that will voluntarily act in the best interests of shareholders. On the other hand, Investor Logic portrays executives as self-interested agents, who are capable of maximising shareholder value, but only if incentives schemes are used to align their interests with those of shareholders. Corporate Logic and Investor Logic have opposing implications for executive remuneration. However, prior research has only studied a few aspects of executive remuneration (Zajac and Westphal, 2004). This research examines executive remuneration, in a holistic manner, in order to determine the extent to which Corporate Logic and Investor Logic are embedded in corporate governance codes and corporate annual reports.

Approach: Drawing on interpretive structuralism (Phillips and Hardy, 2002), a discourse analysis is used to deconstruct and elucidate the discourse on executive remuneration that is embedded in codes and corporate annual reports. The sample includes 55 codes and 75 annual reports produced between 1991 and 2010 in the UK, Australia (AU) and New Zealand (NZ). Multiple features of the texts are examined to ascertain how Corporate Logic and Investor Logic are embedded in the discourse. These features included 6 remuneration principles and 8 (broad) remuneration practices.

Findings: Code issuers and companies draw on multiple remuneration principles to justify their remuneration practices, and these principles and practices are consistent with both Corporate Logic and Investor Logic. Consistent with Corporate Logic, the human resources and market principles are tied to base salaries and recruitment and retention schemes. Consistent with Investor Logic, the agency, motivation and pay-for-performance principles are tied to short- and long-term incentive schemes. As a set, these principles and practices represent what is deemed legitimate and rational, despite Corporate Logic and Investor Logic being theoretically incompatible. By drawing on both Logics, code issuers and companies are afforded much flexibility; that is, the prevailing institutional logics enable, rather than constrain, their discourse.

Theoretical implications: Unlike prior research, this research recognises that the discourse on executive remuneration is highly nuanced and cannot be easily understood through a reductionist content analysis. While Zajac and Westphal (2004) evidenced a transition from Corporate Logic to Investor Logic, this research's discourse analysis shows that both Logics coexist, as distinct from compete, in the discourse on executive remuneration.

Practical implications: As both Logics coexist in the discourse, producers (e.g. code issuers and companies) and consumers (e.g. investors) of the discourse have to cope with much ambiguity and tension inherent in the remuneration principles and practices that constitute the standard remuneration package for executives. For companies, this means their executive remuneration practices cannot be easily challenged and their legitimacy can be maintained through the symbolic use of remuneration principles and practices. To enhance accountability, code issuers, investors and others should exert pressure on companies to simplify their executive remuneration practices and disclosure.

1. Introduction

How do chief executives officers and their direct reports (hereinafter, executives) behave if they receive mainly fixed or variable (performance-based) remuneration? Agency theorists argue that if executives receive mainly fixed remuneration, they will aim to increase firm size and decrease firm risk in order to increase and protect their salaries; whereas if executives receive mainly variable remuneration, they will optimise firm size and risk in order to maximise their own wealth and, consequently, shareholder value (Jensen and Meckling, 1976; Jensen and Murphy, 1990). Executives are portrayed as agents who are capable of maximising shareholder value, but only if the short- and long-term incentive schemes are designed in such a way as to align their interests with those of shareholders. This set of beliefs is known as Investor Logic (Zajac and Westphal, 2004).¹ Stewardship theorists argue that irrespective of whether executives receive mainly fixed or variable remuneration, they will act in the best interests of shareholders (Davis et al., 1997; Donaldson, 1990). Executives are portrayed as stewards who are motivated by intrinsic rewards and a sense of sentiment and duty. This set of beliefs is known as Corporate Logic (Zajac and Westphal, 2004).

The present study investigates how Corporate Logic and Investor Logic have shaped the discourse on executive remuneration in Australia (AU), New Zealand (NZ) and the United Kingdom (UK). Several aspects of the discourse on executive remuneration are studied. Most prior research on executive remuneration has a positivist methodology and uses quantitative methods to examine the relationship between executive remuneration and firm performance (for reviews, see Devers et al., 2007; Gerhart et al., 2009). This research differs as an interpretive methodology is adopted and qualitative methods are used to deconstruct and make sense of the discourse on executive remuneration. Extending the research of Point and Tyson (2006), Wade et al. (1997) and Zajac and Westphal (1995), discourse analysis are used to study how institutional pressures in the form of corporate governance codes of practice (hereinafter, codes) influence how remuneration decisions are reported in corporate annual reports. Further, the present study investigates how both Corporate Logic and Investor Logic, which have opposing implications for executive remuneration, are able to co-exist in the discourse.

The paper is organised as follows. The literature is reviewed in Section 2. Particular attention is given to the theoretical implications of Corporate Logic and Investor Logic for a range of remuneration principles and practices. The research question and method are discussed in Section

¹ Zajac and Westphal (2004) used the term Agency Logic, rather than Investor Logic. However, the term Investor Logic is used in order to distinguish agency theory from Investor Logic.

3. Details of discourse analysis as a method, the sample of texts, and data collection and analysis are given. The findings of the discourse analysis of remuneration principles and practices are presented in Section 4. The findings are then discussed and contextualised in Section 5. Concluding comments are made in Section 6.

2. Literature Review

The present study investigates how institutional logics are embedded in discourse on executive remuneration and how institutional logics influence how remuneration decisions are made and interpreted. Essentially, it is recognised that institutional logics have the power to influence individual and organisational behaviour (Alford and Friedland, 1985; Thornton and Ocasio, 2008). There have been few studies that have taken this approach (cf. Zajac and Westphal, 1995). Here, prior research is reinterpreted in order to understand how institutional logics influence how companies make and justify executive remuneration decisions. However, this is problematic because institutional logics are ambiguous and flexible. For example, Investor Logic does not prescribe what proportion of executive remuneration should be contingent on firm performance or how firm performance should be measured. Therefore, in reviewing prior research, particularly attention is given to the discourse of the researchers and their subjects (e.g. directors) because their beliefs influence how they interpret their social realities.

2.1. Institutional Theory and the Institutional Logics Perspective

Institutional theory is concerned with institutions and institutional logics (for reviews, see Scott, 2008; and Thornton and Ocasio, 2008). Institutions are processes, practices and structures that are self-sustaining and supported by regulative, normative and cultural-cognitive elements. Institutional logics are sets of beliefs, ideas, norms, rules and values that give meaning to institutions. Empirical evidence supports the notion that institutions and institutional logics materially influence how corporate governance is conceptualised and practiced (for a review, see Fiss, 2008). An example of an institution is the set of executive remuneration practices within any given country because these practices are often standardised (Murphy, 1999; Sanchez Marin, 2008) and supported by laws, codes, directors' networks and remuneration consultants (Conyon et al., 2011). Further, an example of an institutional logic is agency theory-based justifications of executive remuneration practices, which are widely diffused and have been found to positively influence investors' reactions to the adoption of long-term incentive plans by US companies (Westphal and Zajac, 1998; Zajac and Westphal, 1995, 2004).

Institutional theory has traditionally explained why organisations within an organisational field become homogenous over time (Scott, 2008). Weber (1968) posited that the desire for profits and market forces drive companies to find and adopt the most efficient and rational way of organising. This process is known as competitive isomorphism. On the other hand, DiMaggio and Powell (1983) argued that coercive, normative and mimetic pressures compel companies to adopt similar structures and processes that do not necessarily increase efficiency. Coercive pressure refers to companies complying with rules and laws, and being sanctioned for non-compliance. Normative pressure refers to companies enacting norms, standards and values because their members are also members of trade and professional associations (e.g. directors' associations have codes of ethics that members are expected to follow). Mimetic pressure refers to the tendency of companies to mimic the actions of their competitors, particularly when faced with uncertainty. These processes are known as institutional isomorphism. Thus, competitive and institutional isomorphism acts as an iron cage that constrains organisational behaviour.

Institutional logics of corporate governance are assumptions and beliefs about how corporate governance should be practiced, which are "linked to higher-order societal logics of economic activity" (Zajac and Westphal, 2004, p.435). There is a small but growing body of research on institutional logics of corporate governance (e.g. du Plessis, 2008; Green et al., 2008; Lok, 2010; Shipilov et al., 2010; Zajac and Westphal, 2004). This research is closely tied to research on comparative corporate governance (Aguilera and Jackson, 2003, 2010) and varieties of capitalism (Hall and Soskice, 2001). Collectively, prior research has identified a number of institutional logics and these have been matched to specific countries. Typically, researchers have argued that investor capitalism (or Investor Logic) is dominant in Anglo-American countries, while network capitalism (or Stakeholder Logic) is dominant in Asian and European countries (Aguilera and Jackson, 2003, 2010).² However, researchers have also pointed out that the dominant institutional logic can change over time (Zajac and Westphal, 2004) and while an institutional logic may be dominant in an organisational field, other institutional logics can still be active (Green et al., 2008; Lok, 2010).

2.2. Corporate Logic and Investor Logic

Table 1 outlines the differences between Corporate Logic and Investor Logic. Zajac and Westphal's (2004) definitions of both Logics are reiterated and then extended. Corporate Logic is part of the Mega Discourse on managerial capitalism, where the economy is dominated by mega corporations that are controlled by specialist executives. Stewardship theory portrays executives as

² Differing from Corporate Logic, Stakeholder Logic assumes that the board will govern the company in the interests of all legitimate stakeholders, not just shareholders (Donaldson and Preston, 1995; Freeman, 1984; Preston, 1998).

motivated by intrinsic rewards and willing to act in the shareholders' best interests without the need for coercion (Davis, et al., 1997; Donaldson, 1990). They are not driven to maximise their own wealth, but they are driven to maximise shareholder value, which will result in economic efficiency and growth (Englander and Kaufman, 2004; Kaen et al., 1988). On the other hand, Investor Logic is part of the Mega Discourse on investor capitalism, where competitive markets hold corporations and their generalist executives to account, which will also result in economic efficiency and growth (Ghoshal, 2005; Kaen et al., 1988). Agency theory portrays executives as motivated by extrinsic (monetary) rewards and opportunistic (Davis et al., 1997; Ghoshal, 2005). While capable of maximising shareholder value, they will only do so if short- and long-term incentive schemes are designed appropriately (Jensen and Murphy, 1990).

Table 1: Corporate Logic and Investor Logic

Key Facets	Corporate Logic¹	Investor Logic¹
Links to Mega Discourses (or higher-order cultural frames)	<ul style="list-style-type: none"> - Managerial capitalism: top management have primary responsibility for allocating resources to different businesses in the corporation - Norms of professional autonomy 	<ul style="list-style-type: none"> - Investor capitalism: shareholders can diversify better and more easily than firms - Logic of capitalist markets
Links to theories of organisation	<ul style="list-style-type: none"> - Managerialist theory (Chandler, 1962) - <i>Stewardship theory (Davis et al., 1997; Donaldson, 1990)</i> 	<ul style="list-style-type: none"> - Agency theory (Jensen and Meckling 1976)
Corporate objective	<ul style="list-style-type: none"> - <i>Shareholder value maximisation (Donaldson, 1990; Sundaram and Inkpen, 2004)</i> 	<ul style="list-style-type: none"> - <i>Shareholder value maximisation (Jensen, 2001; Sundaram and Inkpen, 2004)</i>
Behavioural model of executives	<ul style="list-style-type: none"> - Professionals with unique strategic knowledge that is required for efficient allocation of corporate resources - Stewards of their organisations - <i>Executives are motivated by intrinsic rewards (Davis et al., 1997; Frey and Osterloh, 2005)</i> 	<ul style="list-style-type: none"> - Relatively fungible agents of shareholders - Pursue strategies that advance personal interests at expense of shareholders - <i>Executives are motivated by extrinsic rewards (Davis et al., 1997; Jensen and Murphy, 1990)</i>
Remuneration philosophy	<ul style="list-style-type: none"> - Use salary and other rewards to attract and retain scarce managerial talent - <i>“Fixed Pay: Recruit good people → Pay them well → Expect good performance” (Anthony and Govindarajan, 2007, p.524)</i> 	<ul style="list-style-type: none"> - Use incentives to align management and shareholder interests - <i>“Performance-Based Pay: Recruit good people → Expect good performance → Pay them well if performance is actually good” (Anthony and Govindarajan, 2007, p.524)</i>
Remuneration principles	<ul style="list-style-type: none"> - <i>Fairness: Vertical equity between executives and employees</i> - <i>Human resources: Remuneration tailored to executives’ preferences</i> - <i>Market: Horizontal equity between executives in similar roles, i.e. executives are paid comparably to their peers</i> 	<ul style="list-style-type: none"> - <i>Agency: Use incentives to align executives’ interests with those of shareholders</i> - <i>Motivation: Use monetary incentives to motivate executives</i> - <i>Pay-for-performance: Executives paid well only if firm performance meets or exceeds expectations</i>
Remuneration practices	<ul style="list-style-type: none"> - <i>Performance measures: Internal; financial and non-financial</i> - <i>Desired mix: Mainly fixed remuneration</i> - <i>Level: Positioned at the median relative to other executives in similar roles, although the level may be constrained by the rate of change in employees’ salaries and wages.</i> 	<ul style="list-style-type: none"> - <i>Performance measures: External, e.g. Economic Value AddedTM and total shareholder return</i> - <i>Desired mix: Mainly variable remuneration</i> - <i>Level: Positioning depends on firm performance (e.g. high relative firm performance will mean that executives are paid at the upper quartile relative to other executives in similar roles)</i>
Remuneration processes	<ul style="list-style-type: none"> - <i>The board and remuneration committee are strategic advisors to executives</i> - <i>Executives have input into how their remuneration is structured</i> 	<ul style="list-style-type: none"> - <i>The board and remuneration committee, comprised of mainly independent non-executive directors, monitor executives and contract with them at arm’s length</i>

¹ These columns are verbatim from Zajac and Westphal (2004, p.436), except for the *italicised* text. The *italicised* text is based on my understanding of Corporate Logic and Investor Logic.

Both Logics have wide-ranging normative implications for executive remuneration as shown in Table 1. Corporate Logic is akin to a fixed pay philosophy, where executives are remunerated competitively and fairly. As executives are stewards who put shareholders' interests ahead of their own, monitoring and incentives are not required to the extent that Investor Logic implies (Davis et al., 1997; Donaldson, 1990). On the other hand, Investor Logic is akin to a variable pay philosophy, where executives are remunerated for their individual contributions to firm performance. As executives are agents who put their interests ahead of shareholders' interests, monitoring and incentives are required (Fama, 1980; Jensen and Murphy, 1990). Further, executives should be evaluated using external measures of firm performance, rather than internal measures of performance because external measures are less susceptible to manipulation by executives (Jensen, 2001; Jensen et al., 2005; Stern et al., 1997). While Corporate Logic denies that there is a widespread agency problem, Investor Logic assumes that there is such a problem and it can only be resolved with incentive schemes.

There is a small but growing body of research on institutional logics in general (for a review, see Thornton and Ocasio, 2008) and on Corporate Logic and Investor Logic (Green et al., 2008; Lok, 2010; Shipilov et al., 2010; Zajac and Westphal, 2004). The latter research has investigated several aspects of corporate governance. Notably, Zajac and Westphal (2004) found that there had been a transition from Corporate Logic to Investor Logic in terms of what US investors perceive as the legitimate discourse. However, their earlier research revealed that both Logics were embedded in US companies' justifications of the adoption of long-term incentive schemes, although there was a strengthening of Investor Logic over time (Zajac and Westphal, 1995). Further, Lok (2010) found that both Logics were embedded in UK discourse on corporate governance. However, this prior research has not investigated many of the implications that Corporate Logic and Investor Logic have for executive remuneration. This is a significant gap in knowledge.

Since the early 1990s in the UK and since the early 2000s in most countries, companies have either voluntarily or been required to increase the proportion of independent directors, increase the proportion of performance-based remuneration, increase disclosure of executive remuneration (Chambers and Weight, 2008; Solomon, 2007). There has also been increased shareholder activism (Solomon, 2007). These trends are consistent with a shift from managerial capitalism to investor capitalism (Boyer, 2005; Englander and Kaufman, 2004; Zajac and Westphal, 2004). In particular, Zajac and Westphal (2004) argue that there was a transition from Corporate Logic to Investor Logic in the US during the 1980s. This is exemplified by Frydman and Saks (2010) findings that CEO pay in large US companies was relative flat from the late 1940s to late 1970s, rose steadily in the

1980s and then rose dramatically in the 1990s and 2000s. Nowadays, Investor Logic is dominant in Anglo-American countries (Aguilera and Jackson, 2010).

Englander and Kaufman (2004) and Zajac and Westphal (2004) argue that the mindset of US investors, politicians and others shifted from Corporate Logic in the 1970s to Investor Logic in the 1980s. This was reflected in changing attitudes towards conglomerates: From their being ‘the engine of’ to their being ‘the problem with’ the American economy (Davis et al., 1994). The takeovers movement in the 1980s and institutional investor activism in the 1990s led to US companies becoming specialised rather than diversified (Holstrom and Kaplan, 2001; Zajac and Westphal, 2004). US executives were awarded ever-increasing grants of share options in the 1990s and restricted shares in the 2000s in order to ensure that shareholder value was maximised (Murphy, 2011). However, it may be that US executives have used Investor Logic as a rhetoric to justify increasing levels of executive remuneration irrespective of changes in shareholder value (Bebchuk and Fried, 2004; Boyer, 2005; Englander and Kaufman, 2004; Lazonick and O’Sullivan, 2000).

Prior research has shown that Corporate Logic and Investor Logic are widely diffused discourses which influence how corporate governance is practiced. In Canada, the UK and the US, Investor Logic is dominant, particularly in the discourse of the media and regulators, but Corporate Logic is still active in the discourse of directors and executives (Green et al., 2008; Hansmann and Kraakman, 2001; Lok, 2010; Pye, 2000, 2001, 2002; Shipilov et al., 2010; Zajac and Westphal, 2004). In Germany, Investor Logic and Stakeholder Logic are competing for dominance (Chizema, 2008, 2010; Fiss and Zajac, 2004, 2006; Sanders and Tuschke, 2007). Collectively, these studies have shown evidence of a battle between institutional logics in written texts including corporate annual reports, media articles, corporate governance codes, listing rules and corporate laws. Further, these studies have shown that this battle is multifaceted as directors, executives, investors, media and regulators have different beliefs and interests, and some companies are decoupling their discourse and practices.

Prior research on the diffusion of institutional logics has been narrowly focused. While corporate annual reports often exceed 100 pages, studies have only analysed statements on the corporate objective (Fiss and Zajac, 2004, 2006) and justifications of long-term incentive plans and stock repurchase plans (Zajac and Westphal, 1995, 2004). These studies have only studied two corporate objectives, shareholder and stakeholder value maximisation, and two justifications, agency theory language and human resources management language. Further, a multitude of practices are described in corporate annual reports, but studies have been limited to value-based management

systems, executive share option plans/long-term incentive plans and international accounting standards (Fiss and Zajac, 2004, 2006; Sanders and Tuschke, 2007) as well as stock repurchase plans (Zajac and Westphal, 2004). However, institutional logics of corporate governance have a broad range of implications for how corporate governance and executive remuneration are practiced (see Table 1). Future research should examine these broader implications.

2.3. Remuneration Principles

There is a small but growing body of research that has identified a range of remuneration principles that directors use to make and justify remuneration decisions (e.g. Bender, 2004; Crombie et al., 2010; St-Onge et al., 2001). In general terms, remuneration principles assert that competitive levels of remuneration are required to attract, motivate and retain talented executives, but their remuneration should also be dependent on individual and company performance as well as being fair to other employees and shareholders. These remuneration principles assert that executive remuneration practices influence the behaviour of executives, which in turn influences organisational behaviour and outcomes. These remuneration principles are consistent with either Corporate Logic or Investor Logic (see Table 1). For example, Zajac and Westphal (1995) found that most companies justified the adoption of long-term incentive plans by claiming that the plans will align the interests of executives with those of shareholders, indicative of Investor Logic.

Table 2 summarises the principles that are commonly found in codes (Crombie et al., 2010) and corporate annual reports (Crombie et al., 2010; Wade et al., 1997; Zajac and Westphal, 1995), and commonly opined by executives, directors and remuneration consultants (Bender, 2004, 2007, 2011; Hermanson et al., 2011; Main et al., 2008, 2011; Ogden and Watson, 2008, 2011; Pepper et al., 2012; Perkins and Hendry, 2005; St-Onge et al., 2001). Included in Table 2 are definitions of the principles as well as a brief discussion of whether or not the principles are consistent with Corporate Logic and/or Investor Logic. Zajac and Westphal (2004, p.436) only theorised one remuneration principle for each of the Logics: Corporate Logic implies that directors will “Use salary and other rewards to attract and retain scarce management talent”, while Investor Logic implies that directors will “Use incentives to align management and shareholder interests”. However, it is shown that both Corporate Logic and Investor Logic are consistent with a range of remuneration principles and have a much broader range of implications for executive remuneration than Zajac and Westphal (2004) had envisioned.

Table 2: Principles of Executive Remuneration

Principles	Definitions	Corporate Logic	Investor Logic
Agency	The interests of executives diverge from those of shareholders, but can be aligned using performance-based remuneration.	As Corporate Logic assumes that the interests of shareholders and executives do not diverge, it is <i>incompatible</i> with the agency principle.	Investor Logic is <i>synonymous</i> with the agency principle as it assumes that the interests of shareholders and executives diverge.
Conformance	Executive remuneration practices should be consistent with best practice and (powerful and salient) stakeholders' expectations.	The conformance principle is <i>consistent</i> with Corporate Logic, unless shareholders' expectations vary from best practice or non-shareholding stakeholders' expectations.	The conformance principle is <i>consistent</i> with Investor Logic, unless shareholders' expectations vary from best practice or non-shareholding stakeholders' expectations.
Fairness	Executive remuneration should be equitable, fair and reasonable. Executive remuneration practices should account for vertical equity between executives and employees.	The fairness principle is <i>consistent</i> with Corporate Logic: To aid succession planning, employees (as future executives) should be rewarded proportionally to executives.	The fairness principle is <i>inconsistent</i> with Investor Logic. Remuneration should be based on executives' (and employees') individual contributions to shareholder value.
Human resources	To attract and retain talented executives, executive remuneration packages should be tailored to their preferences.	Corporate Logic is <i>synonymous</i> with the human resources principle as it asserts that executives should be treated with respect and dignity.	Investor Logic is <i>incompatible</i> with the human resources principle because it asserts that executives are replaceable (i.e. not talented) and malleable (i.e. incentives can programme executives to maximise shareholder value).
Market	Executives should be paid comparably to other executives in similar roles and with similar skill sets (i.e. horizontal equity).	The market principle is <i>consistent</i> with Corporate Logic, as it promotes the equitable treatment of all executives.	The market principle is <i>inconsistent</i> with Investor Logic, but how much other executives are paid is relevant information. ¹
Motivation	Executive remuneration practices should be designed to maximise the effort of executives.	The motivation principle is <i>inconsistent</i> with Corporate Logic because executives are assumed to be intrinsically motivated.	The motivation principle is <i>consistent</i> with Investor Logic because executives are assumed to be extrinsically motivated.
Pay-for-performance	Executive remuneration should vary with firm performance. That is, executives' remuneration should be 'at-risk' or only awarded if firm performance meets or exceeds expectations.	The pay-for-performance principle is <i>inconsistent</i> with Corporate Logic, unless variable remuneration is conceptualised as a sharing of rewards (or profits) between shareholders and executives.	The pay-for-performance principle is <i>consistent</i> with Investor Logic, particularly if variable pay is a large proportion of total remuneration. This ensures that executives are only paid if they add shareholder value.
Responsibility	Remuneration should vary with the executives' level of responsibility (or managerial discretion).	If responsibility is equated to position in the organisational hierarchy, then the responsibility principle is <i>consistent</i> with Corporate Logic's concern for horizontal and vertical equity.	If responsibility is equated to an executive's ability to influence firm performance, then the responsibility principle is <i>consistent</i> with Investor Logic (i.e. pay-for-performance).
<p>Note:</p> <p>1 Executive remuneration will be set between the market rate (the amount that comparable executives are paid) and executives' individual contribution to shareholder value (Gomez-Mejia et al., 2010). However, Crystal (1991) and Bebchuk and Fried (2004) argue that executive remuneration can be ratcheted upwards through the use of biased market comparisons. Similarly, Hayes and Schaefer (2009) suggest that executive remuneration can be ratcheted upwards because boards of directors may believe that their executives are above average performers. For these reasons, the market principle will be deemphasised.</p>			

Remuneration principles enable and constrain how remuneration committees make decisions. Remuneration committees are required to comply with or explain why they do not comply with the recommendations of codes. These recommendations are based on multiple remuneration principles (Crombie et al., 2010; Point and Tyson, 2006). In this respect, regulative and normative elements act as a constraint on remuneration committees. For example, Point and Tyson (2006, p.827) found that “most [corporate annual] reports contain sections which ‘cut and paste’ from codes...” Put differently, remuneration committees risk damaging organisational legitimacy if their decisions are not consistent with societal expectations (Bender, 2004; Main et al., 2008; Ogden and Watson, 2011). On the other hand, remuneration committees can use remuneration principles to justify and legitimise most remuneration practices because remuneration principles are flexible and open to interpretation. For example, the pay-for-performance principle does not define how pay and performance are to be measured. Remuneration principles afford remuneration committees much discretion in decision-making.

Remuneration committees also have to manage tensions between remuneration principles. All of the remuneration principles cannot be simultaneously enacted. For example, remuneration committees cannot enact the fairness, market and pay-for-performance principles if there are different proportional changes in the market rate for executives, the market rate for employees and firm performance. To manage these tensions, remuneration committees will have to make compromises or prioritise the remuneration principles. Empirical evidence indicates there is a significant tension between agency/pay-for-performance principles and human resources/market principles (Hermanson et al., 2011; Main et al., 2008; Ogden and Watson, 2011). This arises because there is also “a profound tension among the demands of shareholders, management, and other stakeholders” (Hermanson et al., 2011, p.2). Similarly, Main et al. (2008) found that remuneration committees have to ensure that their decisions satisfy both executives and shareholders. Interestingly, Ogden and Watson (2011) found that remuneration committees prioritise human resources/market principles ahead of other principles because directors believe that executives will go elsewhere if they are under-remunerated relative to their peers.

There have been a few studies on the diffusion of remuneration principles. Zajac and Westphal (1995) found that US companies were more likely justify the adoption of long-term incentive plans with the human resources principle when the CEO was powerful, firm performance was high or during the late 1970s; and with the agency principle when the board was powerful, firm performance was low or during the late 1980s. Wade et al. (1997) found that US companies justified CEO pay with the pay-for-performance principle, but how performance was defined

varied; and with the agency principle when ownership was widely dispersed. Further, Point and Tyson (2006) found that many of the 23 European companies that were studied used the agency, human resources and pay-for-performance principles. They also found that the wording of companies' remuneration reports had become standardised. Similarly, Crombie et al. (2010) found that largest 50 US companies' justifications of CEO pay become increasingly homogenous between 1998 and 2007. In 2007, almost all companies justified CEO pay with all of the remuneration principles, except the fairness principle. They also found that codes included most remuneration principles. This is consistent with both Logics being diffused and institutionalised in the US.

Prior research has found that all remuneration principles have been widely diffused in codes and corporate annual reports over time (Crombie et al., 2010; Wade et al., 1997). While Zajac and Westphal (1995) found that there was a transition in justification of long-term incentive plans from the human resources principle to the agency principle, Crombie et al. (2010) found that both of these principles and others were used to justify CEO pay in 2007. Drawing on institutional theory, Crombie et al. (2010) and Point and Tyson (2006) argue that coercive and normative pressures, in the form of codes, have led to the diffusion of multiple remuneration principles. They also contend that mimetic pressure will influence the adoption of remuneration principles. However, prior research has been limited in the range of countries studied. US companies have been studied in three of four papers reviewed (Crombie et al., 2010; Wade et al., 1997; Zajac and Westphal, 1995), while Point and Tyson's (2006) study of 23 European companies was exploratory. Further research is required to ascertain if this diffusion of remuneration principles is a global trend.

Adding to the diffusion research, qualitative studies have found that remuneration committees use remuneration principles to make, justify and interpret decisions (Bender, 2004, 2007; Hermanson et al., 2011; Main et al., 2008, 2011; Perkins and Hendry, 2005; Ogden and Watson, 2008, 2011) and to manage stakeholders' impressions (Bender, 2011; Hermanson et al., 2011). For example, Bender (2004) found that directors justify the adoption of performance-related remuneration with multiple remuneration principles. To ensure that decisions are legitimate, directors use remuneration principles to make and justify their decisions and remuneration consultants to provide recommendations and endorse their decisions (Bender, 2004, 2007; Hermanson et al., 2011; Main et al., 2008; Perkins and Hendry, 2005; Ogden and Watson, 2008, 2011). For example, Main et al. (2008, p.234) found that "[Remuneration] Committees seek legitimacy for their decisions by recourse to norms and rules of thumb..." This search for legitimacy has both substantive and symbolic elements. Further, the use of a range of remuneration principles is consistent with the diffusion and institutionalisation of both Logics.

2.4. Remuneration Practices

There are two general types of executive remuneration practices: Fixed and variable (relative to performance). Fixed remuneration includes salary, benefits and pension (or superannuation) as well as recruitment, retention and severance payments. These latter payments are often conditional on length of service (Chambers and Weight, 2008). Variable remuneration includes short-term and long-term incentives, which are dependent on financial, non-financial and/or market-based performance (e.g. total shareholder return) (Chambers and Weight, 2008). The remuneration committee has to decide what remuneration practices to use, what performance measures to use, how to set targets for performance measures, the amount of potential remuneration if targets are met (e.g. multiple of salary), and the mix and level of fixed and variable remuneration. Corporate Logic is consistent with executive remuneration packages that are weighted towards fixed remuneration and have flexible targets linked to multiple performance measures, while Investor Logic is consistent with executive remuneration packages that are weighted towards variable remuneration and have rigid targets linked to shareholder value (Zajac and Westphal, 2004).

There has been surprisingly little research that has documented the executive remuneration practices that are used by companies. Typically, executive remuneration practices are discussed in books (e.g. Chambers and Weight, 2008; Gomez-Mejia et al., 2010), rather than journal articles. Surveys of executive remuneration practices are limited to those published by remuneration consultants (e.g. Tower Perrins and Frederick W. Cook & Co). Instead, most research has studied the relationship between the amount of executive remuneration and firm performance (Devers et al., 2007; Gerhart et al., 2009; Tosi et al., 2000). However, to study how institutional logics are embedded in discourse and influence practice necessitates the documenting of both executive remuneration practices and justifications of these practices. Several studies of corporate annual reports have shown that companies use a range of remuneration principles to justify executive remuneration practices (Crombie et al., 2010; Point and Tyson, 2006; Wade et al., 1997; Zajac and Westphal, 1995). But these studies have not examined how the range of executive remuneration practices are justified and if these justifications are coherent and logical as a whole.

Table 3 outlines the expected differences between Corporate Logic and Investor Logic in terms of executive remuneration practices and the remuneration principles tied to those practices. There has only been a single study on the implications that Corporate Logic and Investor Logic have for executive remuneration practices. Zajac and Westphal (1995) found that the adoption of new long-term incentive schemes was justified with the human resources principle (Corporate Logic) and/or

the agency principle (Investor Logic). However, they did not investigate whether the structure of these long-term incentive schemes varied depending on the justification provided. Thus, prior research provides almost no guidance on how executive remuneration practices vary between Corporate Logic and Investor Logic. The expected differences detailed in Table 3 are drawn from agency and stewardship theories' implications for executive remuneration practices (Davis et al., 1997; Grundei, 2008; Jensen et al., 2005). While executive remuneration practices consistent with Corporate Logic emphasise trust and professional autonomy, those consistent with Investor Logic emphasis control and direction.

Table 3: Executive Remuneration Practices

Components	Corporate Logic	Investor Logic
<i>Fixed Remuneration</i>		
1. Base salary and benefits	<i>Practice:</i> Level is positioned at the median relative to peers, although may be constrained by the rate of change in employees' salaries and wages. However, it is inconsistent with Corporate Logic if the level is positioned above the median relative to peers. <i>Justification:</i> Fairness, human resources and market principles.	<i>Alternative practices:</i> a. Level positioned at median (or below) relative to peers. b. Level is positioned at upper quartile relative to peers for executives deemed to be high performers. If this occurs, base salary is another type of variable remuneration. <i>Justification:</i> Pay-for-performance principle.
2. Pension / Superannuation	<i>Scheme:</i> Defined benefit, which offers executives certainty. <i>Level:</i> Median relative to peers. <i>Justification:</i> Fairness, human resources and market principles.	<i>Scheme:</i> Defined contribution, which limits company liabilities. <i>Level:</i> Median (or below) relative to peers. <i>Justification:</i> Pay-for-performance principle.
3. One-off payments for recruitment, retention and severance	<i>Practice:</i> Payments are conditional on continuous employment, and severance payments are unconditional. None are conditional on performance, which demonstrates trust in executives. <i>Justification:</i> Human resources principle.	<i>Practice:</i> Payments are conditional on performance targets. Note: Severance payments are inconsistent with Investor Logic because they are a sign of excessive executive power. <i>Justification:</i> Motivation and pay-for-performance principles.
<i>Variable Remuneration</i>		
4. Short-term incentives (Annual bonus)	<i>Performance measures:</i> Financial and non-financial. Balanced scorecard preferred, but financial is the ultimate end. <i>Incentive:</i> Cash or shares paid immediately. Also, profit-sharing. <i>Justification:</i> Internal measures reflect 'true' firm performance; The Fairness principle for profit-sharing (including employees).	<i>Performance measures:</i> Financial and non-financial, but financial are weighted higher. Economic Value Added TM preferred. <i>Incentive:</i> Cash or shares with a portion deferred for 1-3 years. <i>Justification:</i> Internal measures can be manipulated by executives; Agency, motivation and pay-for-performance principles.
5. Long-term incentives	<i>Schemes:</i> Unconditional share options with a vesting period of 5-10 years, or restricted shares that executives purchase using interest-free loans. <i>Performance measures:</i> But if conditional, financial (e.g. earnings per share) preferred, so that executives have a degree of control. <i>Justification:</i> Human resources principle.	<i>Schemes:</i> Share options or restricted shares which are conditional on shareholder-oriented targets with a vesting period of 3-5 years. <i>Performance measures:</i> External (e.g. total shareholder return relative to competitors) preferred as executives cannot manipulate. <i>Justification:</i> Agency, motivation and pay-for-performance principles.
6. Minimum shareholding requirements	Not required, but executives are not discouraged from owning shares.	<i>Practice:</i> The value of the minimum shareholding is expressed as a percentage of base salary. <i>Justification:</i> Agency principle.
<i>Total Remuneration</i>		
7. Mix of fixed and variable	<i>Desired mix:</i> High proportion of fixed remuneration. <i>Justification:</i> Executives are trusted to act in the best interests of shareholders without the need to be coerced by incentives.	<i>Desired mix:</i> High proportion of variable remuneration. <i>Justification:</i> Agency, motivation and pay-for-performance principles.
8. Level of fixed, variable and total	Level is positioned at median relative to peers, although may be constrained by the rate of change in employees' salaries and wages. <i>Justification:</i> Fairness, human resources and market principles.	Level is positioned at lower-quartile/median/upper-quartile relative to peers with below-average/average/above-average firm performance. <i>Justification:</i> Pay-for-performance principle.

Fixed remuneration consists of salary, benefits, pension and other payments. To reward executives for their commitment and loyalty to the company, their fixed remuneration will not vary wildly, and recruitment, retention and severance payments will only be conditional on length of service. This is consistent with Corporate Logic because executives are assumed to act in the best interests of shareholders when there are no incentive schemes. However, executives do expect to be treated with respect and dignity and remunerated at a level that is comparable to their peers (e.g. median), although this may be constrained by employees' general wage increases. This line of reasoning is inconsistent with Investor Logic. Jensen and Murphy (1990) and Jensen et al. (2005) argue that under such arrangements executives will reduce the variability in earnings (i.e. reduce risk of corporate failure) in order to protect their jobs. Under Investor Logic, fixed remuneration is either reduced or converted into variable remuneration (e.g. a portion of base salaries may be 'at-risk').

Variable remuneration consists of short- and long-term incentive schemes. If executives act as stewards, then short- and long-term incentive schemes are not required (Davis et al., 1997; Grundei, 2008). Further, if executives, who are stewards, receive mainly variable remuneration, then they may feel that they are not trusted, lose intrinsic motivation and, possibly, turn into agents (Frey and Osterloh, 2005; Ghoshal, 2005). Thus, short- and long-term incentive schemes are inconsistent with Corporate Logic. However, profit-sharing is consistent with Corporate Logic. On the other hand, Investor Logic assumes that executives act as agents, so both short- and long-term incentive schemes are required to control and direct them. It is assumed that executives' individual contributions to firm performance can be measured and valued (Jensen et al., 2005). Variable remuneration arrangements must strike a balance between the near-future and distance-future, so that executives are motivated to perform in the present without taking excessive risks (Jensen, 2005; Jensen et al., 2005). Moreover, executives must own shares, so that they think and act like an owner and have 'skin in the game' (Jensen et al., 2005).

There are a wide variety of performance measures on which short- and long-term incentives may depend including internal measures that may be financial or non-financial, and external measures such Economic Value AddedTM and total shareholder return. Note that Economic Value AddedTM is considered to be an external measure because the capital charge, which is deducted from profit, is based on the market's required rate of return (Stern et al., 1997). Irrespective of whether performance measures are tied to incentives, executives still have to measure firm performance. Under Corporate Logic, internal measures are preferred because executives are assumed to know how to allocate resources better than capital markets (Zajac and Westphal, 2004). A balance scorecard approach may be preferred because improving non-financial performance is believed to

improve financial performance (Kaplan, 2009; Kaplan and Nagel, 2003). On the other hand, external measures are preferred if executives are assumed to be agents that are capable of manipulating internal measures (Jensen et al., 2005). Investor Logic is consistent with short- and long-term incentives being dependent on external measures so that executives are programmed to maximise shareholder value over the long-term (Jensen, 2001; Stern et al., 1997).

Consistent with Corporate Logic, executives should receive mainly fixed remuneration and their total remuneration should be comparable to other executives in similar roles, although it may be constrained by their employees' working conditions (Davis et al., 1997; Grundei, 2008). Remunerating executives at the upper quartile relative to their peers is inconsistent with Corporate Logic, unless employees are also remunerated at the upper quartile. On the other hand, Investor Logic asserts that executive remuneration should vary with firm performance. If executives are paid at the upper-quartile relative to their peers in the absence of superior performance, then this is a sign of managerial power (Bebchuk and Fried, 2004; Jensen et al., 2005). However, prior research has rarely examined executive remuneration practices in the fine-grained detail that is outlined in Table 3. It is not known if there are two or more groups of companies: For example, some with practices consistent with Corporate Logic and others with practices consistent with Investor Logic. Further research is required to understand how, if at all, Corporate Logic and Investor Logic influence how companies structure and justify their executive remuneration practices.

3. Research Method

The main limitation of studying a large sample of organisational texts is that few features of those texts can be studied. Prior research on institutional logics has used the human resources principle as a measure of Corporate Logic and the agency principle as a measure of Investor Logic (Westphal and Zajac, 1998; Zajac and Westphal, 1995). However, this reductionist approach ignores the complexities and nuances of organisational texts. This limitation is overcome in the present study by examining multiple features of a small sample of organisational texts. In doing so, this research examines how Corporate Logic and Investor Logic are embedded in the discourse on executive remuneration in AU, NZ and the UK. It may be that Corporate Logic and Investor Logic are competing or coexisting in the discourse (Zajac and Westphal, 2004). Consistent with coexistence, for example, St-Onge et al. (2001) found that Canadian executives used multiple remuneration principles to justify the adoption of executive share option plans. Therefore, the following research question is explored:

How, if at all, have Corporate Logic and Investor Logic influenced how executive remuneration has been conceptualised in AU, NZ and UK organisational texts?

3.1. Countries Studied

Three countries, AU, NZ and the UK, were selected as opportune sites to study Corporate Logic and Investor Logic for several reasons. First, Corporate Logic is likely to be weak in the US because Wall Street exerts pressure on executives to meet quarterly earnings targets (Boyer, 2005; Jensen, 2005; Zajac and Westphal, 2004). The US is not an opportune site to study the tension between Corporate Logic and Investor Logic. Second, Corporate Logic is likely to be stronger in AU, NZ and the UK compared to the US because AU, NZ and UK companies have comparatively conservative approaches to executive remuneration (Conyon and Murphy, 2000; Fernandes et al., 2009; Mishel et al., 2007). Third, despite this conservative approach, there has been much public outrage in AU and the UK, but not in NZ, over cases of executives receiving large pay increases for no apparent reason or when their companies have (almost) failed (AU: Productivity Commission, 2009; UK: Chambers and Weight, 2008). Consistent with a strengthening of Investor Logic, AU and UK Governments have bolstered remuneration disclosure requirements and shareholder rights (e.g. AU's Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004; UK's Directors' Remuneration Report Regulations 2002).

The tension between Corporate Logic and Investor Logic in three different organisation fields is investigated. The UK has been the leader in corporate governance reform, although business has led much of this reform (Jones and Pollitt, 2004; Solomon, 2007). It has provided a blueprint for corporate governance reform in other countries (Enrione et al., 2006). AU rapidly adopted the UK's reforms (Hill, 2006, 2008). In addition, AU and UK code issuers have produced many official reports and codes that include discussion of and recommendations on corporate governance and executive remuneration (Chambers and Weight, 2008; du Plessis et al., 2005; Solomon, 2007). These changes are indicative of a strengthening of Investor Logic. However, prior research has not studied how these changes in AU and the UK have influenced how Corporate Logic and Investor Logic are embedded in the discourse on executive remuneration. Further, while there have been changes in NZ, the changes in terms of executive remuneration have been negligible. Thus, NZ is an opportune site to study how both Logics are embedded in the discourse in the near-absence of regulation and codes related to executive remuneration.

3.2. Sampled Texts

Table 4 details the sample of codes and corporate annual reports that were purposively selected. The sample includes 55 codes (1991-2010) produced by four UK code issuers, six AU code issuers and four NZ code issuers, as well as 75 corporate annual reports (1989 for UK only, 1998 and 2007)

produced by eleven UK companies, nine AU companies and thirteen NZ companies. While the size of the sample is small relative to the size of samples in prior research (e.g. Zajac and Westphal, 1995), it is large relative to prior research that uses discourse analysis (e.g. Craig and Amernic, 2004). The sample size was purposely selected in order to: first, reveal the maximum variation in executive remuneration policies and practices (Saunders et al., 2009); and second, understand how code issuers' recommendations and companies' remuneration policies and practices changed over time. Codes issuers that produced multiple codes over time were selected. Companies were selected from a larger sample of the largest 50 companies by market capitalisation in AU, NZ and the UK. Further explanation of how the texts were selected is given below.

Table 4: Sample of Codes and Corporate Annual Reports

Countries	Codes		Corporate Annual Reports	
	# of Codes	# of Code Issuers	# of Annual Reports (Year)	# of Companies
UK	22	4	10 (1989) 10 (1998) 11 (2007)	10 10 11
AU	19	6	9 (1998) 9 (2007)	9 9
NZ	14	4	13 (1998) 13 (2007)	13 13
Total	55	14	75	33

The sampled codes are listed in the Appendix. Drawing on corporate governance textbooks, academic articles, professional articles and websites (e.g. http://www.ecgi.org/codes/all_codes.php), all codes produced in AU, NZ and the UK were identified. The codes are produced by a range of organisations including stock exchanges, stock exchange regulators, directors' associations and investors' associations. Many codes are endorsed by multiple organisations and some codes are produced by multiple organisations. Only codes with multiple editions were sampled, so that trends over time could be studied. This includes the UK's official reports (e.g. Cadbury, 1992; Greenbury, 1995; Hampel, 1998; etc.) because each inquiry built on those that preceded it. This meant that 13 codes were not included in the sample as these codes did not have multiple editions. However, these particular codes did not appear to be as influential or widely cited, so this should not restrict the present study's findings.

The sampled corporate annual reports are also listed in the Appendix. The sample is purposefully chosen to capture the maximum variation in the companies' remuneration policies and practices. First, the incidence of the remuneration principles in a larger sample of the largest 50 companies that were listed in AU, NZ and the UK in 1989 (UK only), 1998 and 2007 was studied (see Crombie, 2009). Only UK companies in 1989 were sampled because AU and NZ companies did

not provide meaningful remuneration disclosures prior to 1998. 1989, 1998 and 2007 were selected in order to ascertain the impact of corporate scandals and new disclosure requirements on companies' remuneration policies and practices. Second, a range of companies was selected from the larger sample which was representative of the maximum variation in terms of remuneration principles in the larger sample. However, the maximum variation is limited because few remuneration principles are present in the older annual reports, while most remuneration principles are present in the newer annual reports.

3.3. Discourse Analysis

A discourse analysis was employed to study the sampled texts. Discourse analysis is "*the structured and systematic study of collections of interrelated texts, the processes of their production, dissemination and consumption, and their effects on the context in which they occur*" (Phillips and Di Domenico, 2009, italics in original, p.551). Bridging the macro-micro divide, discourse analysis generates insight into how texts are constructed to persuade readers (the micro) and how texts construct social reality (the macro) (Alvesson and Kärreman, 2000). Further, Phillips and Hardy (2002) argue that the researcher's paradigmatic assumptions vary with the focus of their discourse analysis. Researchers who have a micro focus (e.g. language use in texts) will draw on linguistics, while researchers who have a macro focus (e.g. texts in context) will draw on interpretive or critical methodology. While critical approaches tend to examine power and politics (e.g. how texts can legitimise those with power), interpretive approaches tend to investigate the construction of social reality (e.g. how texts create shared understandings).

Using discourse analysis as a research method for analysing texts is fraught with difficulty. Unlike other research methods, there are multiple versions of discourse analysis, each of which has not precisely defined (Alvesson and Kärreman, 2000; Phillips and Di Domenico, 2009). For instance, Phillips and Hardy (2002) identify four types: Interpretive structuralism, critical discourse analysis, social linguistic analysis and critical linguistic analysis. Most prominent in organisational studies is critical discourse analysis (Alvesson and Kärreman, 2011; Wodak and Meyer, 2009). Further, there are almost no studies of discourse that have a methodology of interpretive structuralism. Similarly, there are almost no studies on corporate governance or executive remuneration that have utilised any variety of discourse analysis. Thus, discourse analysis as a method and prior research that has utilised discourse analysis offers no formula or guide for carrying out research on the discourse on executive remuneration. Phillips and Hardy (2002, p.74) confirm that "researchers need to develop an approach that makes sense in light of their particular study".

Drawing on interpretive structuralism (Phillips and Hardy, 2002), a discourse analysis is used to understand the discourse on executive remuneration in different institutional settings (i.e. AU, NZ and the UK). Essentially, the present study investigates how Corporate Logic and Investor Logic shape how code issuers and companies construct their social reality with respect to executive remuneration. Code issuers and companies may draw on one or both Logics to legitimise their recommendations and practices, respectively. Multiple aspects of the discourse are studied including remuneration principles and remuneration practices (see Tables 2 and 3). To gain an understanding of discourse, a pilot study was carried out and then the full sample was studied. This is discussed next.

3.4. A Pilot Study

Following Phillips and Hardy's (2002) advice, a pilot study of the discourse on executive remuneration was undertaken in order to: first, come to terms with discourse analysis as a method and interpretive structuralism as a methodology; and second, understand how Corporate Logic and Investor Logic are embedded in the discourse on executive remuneration (see Crombie, 2011). The sample included one recent code and one 2007 annual report from the UK, AU and NZ (six texts in total). The most influential codes were selected (i.e. produced by the local regulator). Corporate annual reports that included the median number of the remuneration principles for each country in 2007 were randomly selected. Eight aspects of corporate governance and executive remuneration were studied. For each aspect, the extent to which Corporate Logic and Investor Logic were consistent with code issuers' recommendations and companies' policies and practices were examined. The findings showed that while the discourse is multifaceted and highly nuanced, the discourse is strongly consistent with both Corporate Logic and Investor Logic. Thus, discourse analysis can be used to generate insight from an institutional logics perspective.

3.5. Data Collection and Analysis

The present study's research question concerns how Corporate Logic and Investor Logic are embedded in the discourse on executive remuneration of code issuers and companies. A sample of codes and corporate annual reports is selected in order to study this discourse. A discourse analysis of executive remuneration principles and practices within the discourse is conducted to demonstrate the differences between Corporate Logic and Investor Logic. Essentially, this research method involved documenting the range of executive remuneration principles and practices that are recommended by codes issuers and adopted by companies, and then exploring how, if at all, Corporate Logic and Investor are embedded in these principles and practices. Using such an approach to examine the discourse on executive remuneration is novel and exploratory.

Six remuneration principles and eight broad remuneration practices were studied (see Tables 2 and 3). Note that the conformance and responsibility principles were not studied as these principles are not well defined and are broadly consistent with both Corporate Logic and Investor Logic (i.e. do not discriminate). The data collection procedure involved making notes on what code issuers recommended and how they justified their recommendations, and on what companies practiced and how they justified their practices. Sections of the sampled codes and corporate annual reports that related to executive remuneration were read multiple times. Also, keyword searches were used to detect the presence of specific remuneration principles and practices. Further, notes were also made on other features of the texts such as the corporate objective that was recommended or practiced. These notes generated some insight into the code issuers and companies. Overall, the notes were brief for the most texts, but were quite extensive for AU and UK 2007 corporate annual reports.

There were two phases to the data analysis. First, the range of recommend and adopted practices and the range of justifications of the practices found in the sampled codes and corporate annual reports by country and time period was ascertained. This purposive sampling was used to “collect data to describe and explain the key themes that can be observed” (Saunders et al., 2009, p.239). This enables possible trends to be detected and analysed further. As expected, the range was limited because code issuers’ recommendations are non-specific and companies’ remuneration disclosures are minimal, particularly on why certain practices are adopted.³ However, some AU companies in 2007, some UK companies in 1998 and most UK companies in 2007 disclosed a lot of specific information on executive remuneration. As a result, the examples provided in the findings are drawn mainly from these companies. Second and more importantly, the various recommendations and practices were categorised as being consistent with no Logic, Corporate Logic, Investor Logic or both Logics. The theoretical underpinnings of the institutional logics were used to guide this categorisation (see Tables 1, 2 and 3).

There are several limitations to this discourse analysis. First and most significantly, non-financial (intrinsic and extrinsic) rewards are ignored because there is almost no discussion of these rewards in codes and corporate annual reports. For example, a company may appear to have a humble executive remuneration policy, but they may reward their executives using other rewards such as corporate jets, chauffeured limousines, extravagant offices, etc. This is a significant limitation because the critical difference between Corporate Logic and Investor Logic concerns how

³ A notable exception is the UK’s Greenbury (1995) report on directors’ remuneration. This text is very different to the other codes in the sample because it includes detailed and specific recommendations.

executives are assumed to behave. Second, the findings cannot be generalised to the population. Third, the examples could have been selected in a biased or haphazard manner, although the pilot study demonstrates that the discourse on executive remuneration has been studied thoroughly and systematically. However, it is recognised that most examples in findings are from AU and UK corporate annual reports in 2007. Overall, these limitations highlight that this discourse analysis is exploratory.

4. Findings

The discourse analysis reveals that both Logics were embedded in the discourse because the remuneration principles (except the fairness principle) were widely diffused in the sampled texts and were tied to various executive remuneration practices. Both Logics were able to co-exist in the discourse because Corporate Logic had been weakened (as the fairness principle was almost never tied to any executive remuneration practices). Further, there was a standard remuneration package for executives that became increasingly complex and more heavily justified over time. Code issuers and companies argued that executives were capable of maximising shareholder value, but only if boards of director implemented short- and long-term incentive schemes to control and direct them. Simpler packages and alternative justifications no longer appeared to be legitimate. This is consistent with Investor Logic being stronger than Corporate Logic. However, the complexity in the discourse also meant that almost any executive remuneration practice could be justified, particularly if the justifications were symbolic.

4.1. Remuneration Principles

The full range of remuneration principles were found in the sampled codes and corporate annual reports. This is indicative of both Logics being embedded in the discourse on executive remuneration. There was a greater incidence of the remuneration principles in newer texts and in UK and AU texts, although all remuneration principles were found in some older texts (e.g. Greenbury, 1995, UK). While both Logics coexist in the discourse, there appeared to be a strengthening of Investor Logic as the agency and pay-for-performance principles dominated, particularly as justifications for long-term incentives (see Section 4.2). The remuneration principles were labelled as principles, objectives, strategies and policies in codes and corporate annual reports. Essentially, the remuneration principles provided a framework for recommendations in codes or remuneration practices in corporate annual reports. As the cornerstone of the discourse, the remuneration principles represent the shared beliefs of code issuers and companies, the objectives that they strive to meet and a justification (or defence) of executive remuneration practices. These features of the remuneration principles are further discussed in the remainder of this section.

As a set, the remuneration principles represent the shared beliefs of or a language for codes issuers and companies. It is near impossible to know when the remuneration principles became widely diffused because there is limited disclosure on remuneration prior to 1996 in the UK (when the London Stock Exchange annexed Greenbury's code) and 2001 in AU (when the Corporations Act's remuneration disclosure requirements were introduced). Note that there is still limited disclosure on remuneration in NZ. Given that many directors and executives were part of the committee that drafted the Greenbury report and many directors and executives made submissions to the committee, it is likely that the remuneration principles were embedded in the discourse well before the issuance of the Greenbury report in 1995. Similar reasoning applies to the ASX Corporate Governance Council's (ASXCGC's) code issued in 2003 and NZ Securities Commission's code issued in 2004. In effect, the debate on how to frame executive remuneration has been concluded long ago because both code issuers and companies are wedded to the remuneration principles. That is, the remuneration principles define societal expectations on executive remuneration.

Table 5 presents the remuneration policies of selected AU, NZ and UK code issuers and companies. There is a high incidence of the remuneration principles in each of the policies, although there is low incidence of the fairness principle relative to the other remuneration principles. Also, the incidence of the remuneration principles was higher in recent texts and higher in AU and UK texts. The overall incidence was lower in NZ texts, but not insignificant. This highlights that both Logics are embedded in the discourse, but Investor Logic is stronger than Corporate Logic. The underlying assumptions are that (1) executives are self-interested and effort-adverse because monetary incentives are required to align their interests with those of shareholders and to motivate them; (2) executives are a scarce resource that can be bought; and (3) executives are 'talented' in that they know how to maximise firm performance, but will only do so if they are given a competitive level of remuneration and monetary incentives.

Table 5: Selected Remuneration Policies in AU, NZ and UK Codes and Corporate Annual Reports

Country	Code	1998 Annual Report	2007 Annual Report
United Kingdom	Financial Reporting Council (2006, pp.11-12): “Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors’ remuneration should be structured so as to link rewards to corporate and individual performance... There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.”	Tesco (1998, p.10): “The remuneration packages, including contract periods, of executive directors are determined by the Remuneration Committee (‘the Committee’). It ensures that the remuneration package is appropriate for their responsibilities, taking into consideration the overall financial and business position of the Group, the highly competitive industry of which the Group is part and the importance of recruiting and retaining management of the appropriate calibre. The remuneration of the non-executive directors is determined by the Board as a whole on the recommendation of the Executive Committee after considering external market research.”	Legal & General Group (2007, p.49): “The Group’s remuneration policy is broadly consistent for all employees and is designed to support recruitment, motivation and retention. Remuneration is considered within... the markets in which the divisions operate. The policy for the majority of employees continues to be to pay around the relevant mid-market level with a package designed to align the interests of employees with those of shareholders, with an appropriate proportion of total remuneration dependent upon performance. Management work in partnership with the trade union, Unite, to ensure our pay policies and practices are free from unfair bias. This is monitored by an annual equal pay audit.”
Australia	ASX Corporate Governance Council (2003, p.51): “Principle 9: Remunerate fairly and responsibly Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined. This means that companies need to adopt remuneration policies that attract and maintain talented and motivated directors and employees so as to encourage enhanced performance of the company. It is important that there be a clear relationship between performance and remuneration, and that the policy underlying executive remuneration be understood by investors.”	Westpac Banking Corporation (1998, pp.81-82): “Westpac has designed its executive compensation program to support a pay for performance policy... The Committee’s specific objectives are to... [1] Align the financial interests of executive officers with those of shareholders... [2] reward and motivate executives... [3] take into account Westpac’s... [relative] performance... and... individual contributions... [4] Provide fixed pay... to attract and retain key executives... that recognises the market value of the position as well as internal equities between roles... [5] Emphasise performance-based and equity-based compensation...”	Brambles (2007, p.58): “The Board has adopted a remuneration policy... designed to attract and retain high calibre executives, align executive rewards with the creation of shareholder value and motivate executives to achieve challenging performance levels... When setting and reviewing remuneration levels... the Committee considers the experience, responsibilities and performance of the individual and takes account of market data relevant to the individual’s role... The Group’s remuneration policy is to pay at the median level of remuneration for target... performance and... upper quartile... for outstanding... performance.”
New Zealand	NZ Securities Commission (2004, p.17): “The remuneration of directors and executives should be transparent, fair, and reasonable. The board should have a clear policy for setting remuneration of executives (including executive directors) and non-executive directors at levels that are fair and reasonable in a competitive market for the skills, knowledge and experience required by the entity.”	Guinness Peat Group (1998, pp.40-41): “It remains the Remuneration Committee’s policy that remuneration and benefit levels should be sufficiently competitive, having regard to local remuneration practice in the country in which the director works, to attract, incentivise, reward and retain the directors... Share options are awarded to directors and senior staff... The Company does not operate any other long term incentive schemes nor does it normally award cash bonuses... The approach also aligns management interests with those of Shareholders.”	The Warehouse (2007, pp.75-76): “Making sure team members get the rewards they deserve is the responsibility of the Remuneration, Talent and Nomination Committee... The objective of the senior managerial remuneration strategy is to provide competitive remuneration aimed at: aligning managers’ rewards with shareholders’ value; achieving business plans and corporate strategies; rewarding performance improvement; and retaining key skills and competencies...”

However, the problem with these assumptions (or a high incidence of the remuneration principles) is that remuneration principles are assumed to be additive, but there are obvious tensions between the remuneration principles. It is likely that implementing the remuneration principles requires prioritisation and trade-offs, but these are not taken into account by code issuers or companies. There is a tension between the market, fairness and pay-for-performance principles in that the level of remuneration for executives may change at a different rate to the level of remuneration for employees and the change in firm performance. Further, there is tension between the market, human resources and motivation principles in that scarce managerial talent will not be attracted by median levels of remuneration and restrictive performance conditions, but will not be motivated by loose performance conditions. These tensions are glossed over in codes and corporate annual reports. For example, Investment and Financial Services Association (IFSA, AU, 2004, p.28) state, “Australian listed companies must be able to attract and reward superior executives within a competitive global environment. Nevertheless, remuneration must be reasonable in light of the circumstances of the company...”

A further problem with the recommendations of code issuers and policies of companies is that the remuneration principles are presented as objective facts, not subjective beliefs. At a surface level, the remuneration principles make sense and are difficult to oppose. After all, a remuneration committee may be considered crazy or mad if they argued that remuneration should not be set at a competitive level, should not be used to motivate executives, or should not align executive interests with those of shareholders. This speaks to the extent to which the remuneration principles have become taken-for-granted. However, many of the remuneration principles are inherently flawed. In particular, many terms are ill-defined and practical application of the principles is not discussed. With respect to the agency principle, there is no discussion in codes and corporate annual reports on whether shareholders have a collective or common interest. For instance, shareholders may have varying risk preferences and investment time horizons. With respect to the pay-for-performance principle, the term ‘performance’ is not precisely defined in codes and corporate annual reports.

Remuneration principles are also rhetorical devices that code issuers and companies employ to defend and justify their remuneration policies and practices. Certainly, the sampled codes and corporate annual reports were meticulously crafted texts, designed to persuade readers of the rationality and legitimacy of their recommendations and practices, respectively. However, it is very difficult to know if the remuneration principles are mere rhetoric or if the code issuers and companies believe in the efficacy of the remuneration principles. In the sample, there is one striking example of the remuneration principles being used as rhetorical devices. Brierley

Investments (NZ) faced a legitimacy crisis in 1998 and used its annual report to defend the legitimacy of its directors and executives as well as its remuneration policies and practices (see Table 6). Brierley Investments' 1998 Annual Report illustrates (1) how Investor Logic can become embedded in an organisation's decisions on corporate governance and executive remuneration; and (2) how the annual report can be used as a rhetorical weapon (in an attempt) to defend an organisation's legitimacy.

Table 6: Remuneration Principles as Rhetoric – The Case of Brierley Investments

Brierley Investments (NZ, 1998) represents an exemplar of Investor Logic only because of the new chairman's statement in the annual report. The company's directors faced a major legitimacy crisis prior to the release of its 1998 annual report. In 1998, Brierley Investments' share price was NZ\$1.22 on 5 January, NZ\$0.34 on 25 September after reporting a NZ\$904 million loss, and NZ\$0.43 on 31 December. In the history of NZ listed companies, BIL's \$904 million loss is second only to Air New Zealand's \$1,425 million loss in 2001. Further, the old chairman and CEO had been demised in late April. The news of the old CEO's NZ\$4 million redundancy payment accelerated the decline in Brierley Investments' share price (Parker, 9 May 1998).

Facing NZ's largest ever corporate loss at the time, the release of Brierley Investments' 1998 annual report was the board of directors' last chance to present a credible recovery plan to shareholders. At the beginning of the annual report, the new chairman drew on Investor Logic to craft his recovery plan. The third page of Brierley Investments' (NZ, 1998, p.1) annual report outlined the recovery plan (in a very large bold font):

"Shareholders can expect to see a BIL [Brierley Investments Limited] in the future with improved corporate governance, clear lines of authority between the Board and management, executive remuneration inextricably linked to our performance and an investment strategy"

In the body of the new chairman's statement, he described a number of proposed changes including a new incentive scheme and new corporate governance structure (i.e. majority independent directors). The agency principle was used to justify the adoption of Economic Value AddedTM as a performance measure:

"To ensure a congruence of shareholder and management interests, it is the Board's intention to introduce Economic Value Added (EVA) performance measurement principles. BIL retained EVA specialists Stern Stewart & Co to advise it on an incentivisation scheme that aligns executive remuneration with shareholder returns" (p.6)

He argued that this would be beneficial for shareholders because management "will share in the downside" (p.6), although management not receiving a bonus is not the same as shareholders' losing their capital:

"To encourage management to achieve returns in excess of the risk-adjusted growth rate, incentive compensation will be linked directly to the management team's achievement of wealth creation targets. If management fails to create wealth for shareholders, it will share in the downside." (p.6)

Reflecting on the proposed change, the new chairman's penultimate sentence of his statement was: "Management and shareholder interests will be aligned, with management remunerated relative to the wealth it creates for our shareholders" (p.14). The new chairman's statement was followed by another full page quote (in a very large bold font): "Ultimately it is performance that shareholders demand, and the Board is intensely aware of the need to deliver" (p.15). The new chairman had also announced his intention to resign at the 1998 annual general meeting. Certainly the new chairman's rhetoric was consistent with Investor Logic only. However, as Brierley Investments (NZ) disclosed few other details of their executive remuneration practices in any of its previous or subsequent annual reports, a definitive conclusion cannot be drawn. Further, judging the success of Brierley Investments' 1998 annual report in defending the directors' legitimacy is subjective. Three non-executive directors were not re-elected at the 1998 annual general meeting, but the company continued to operate.

4.2. Remuneration Practices

There is a standard remuneration package for executives that is recommended by most code issuers and adopted by most companies. As a case in point, Qantas' (AU, 2007) executive remuneration package included base salary, benefits, superannuation, retention payments, short-term incentives

and long-term incentives. For codes, the standard package is closely tied to the remuneration principles, although the discussion of alternatives and limitations is minimal (cf. Greenbury, UK, 1995). Long-term incentives receive the most attention in codes. For companies, remuneration reports include a remuneration framework or policy, a description of each component of remuneration for the CEO and senior executives, and then disclosure of awarded remuneration (in tabular form). The remuneration principles are embedded in the remuneration framework/policy and each component of remuneration, as a justification for the chosen practices. Overall, the standard package is consistent with both Logics, but Investor Logic is stronger than Corporate Logic given the emphasis on variable remuneration and the chosen performance measures, particularly total shareholder return. Each component of the standard package is discussed next.

4.2.1. Fixed Remuneration

Salaries and benefits are conceptualised using the market and pay-for-performance principles in codes, although this discussion is limited. The market principle provides the underlying rationale. For example, Association of British Insurers (ABI, UK, 2005, p.5) stated, “When setting salary levels Remuneration Committees should take into consideration the requirements of the market, bearing in mind competitive forces...” However, the flaw in this rationale is that most boards believe their executives are above average performers and should receive above average levels of salaries and benefits, resulting in the average increasing over time (this is known as the Lake Wobegon Effect, see Hayes and Schaefer, 2009). The pay-for-performance principles and, occasionally, the fairness principle, act as constraints on this practice. For instance, Greenbury (UK, 1995, p.37) argued, “Companies should not pay above average levels regardless of performance... If companies generally pursue such policies, the effect will simply be to ratchet up the general level of executive remuneration.”

Prior to changes in remuneration disclosure requirements in the mid-2000s, many UK and AU companies did not disclose how salaries and benefits were determined, except to say that executives’ salaries were competitive in the market. It is likely that a competitive position means median or above, not below median. For example, Tesco (UK, 1998, p.10) stated, “The base salary... of executive directors... are... reviewed annually by the Committee, having regard to competitive market practice supported by two external, independent surveys.” Some companies positioned salaries at the upper quartile and justified this position with the pay-for-performance principle. For example, Cadbury Schweppes (UK, 2007, p.60) stated that, “Basic salary... at upper quartile for consistently strong or outstanding individual performance...” Further, in applying the pay-for-performance principle, Newcrest Mining (AU, 2007, p.56) made executives’ salaries half

fixed and half variable (“salary at risk”). Interestingly, no companies in the sample positioned base salary below the median. This may result in the median being ratcheted upwards over time.

Consistent with Corporate Logic, the market principle and, occasionally, the fairness principle were invoked by companies in justifying executives’ salaries. However, there is a tension between the market and fairness principles when market rates for executives and employees change at different rates. As a case in point, Sainsbury J (UK, 2007, p.38) increased the base salary of its chief executive at the same rate as employees’ salaries/wages in 2005 and 2006 (3.7% and 3.6%, respectively), but “re-aligned” the Chief Executive’s salary with the market median in 2007 (which was an increase of 17%). This decision was justified as follows (2007, p.38):

“Since his appointment in March 2004, the Chief Executive has received pay increases in line with colleagues... However a recent salary review showed that his base pay had fallen significantly behind market median levels. The Remuneration Committee strongly believes that it is in the interests of shareholders to re-align his base salary with market competitive levels.”

Prioritising the market principle (i.e. horizontal equity) ahead of the fairness principle (i.e. vertical equity) indicates that executives are motivated by extrinsic rewards and that Corporate Logic may be weak or symbolic.

Pension (or superannuation) schemes are rarely discussed in codes and corporate annual reports. Most codes required pension schemes to be disclosed. Most companies justified fixed remuneration (including pensions) with the human resources and market principles, but rarely did they provide a separate justification for pension schemes. There appeared to be a shift in practice as companies changed from defined benefit pension schemes to defined contribution pension schemes. As a case in point, Brambles (AU, 2007, p.58) explained why defined benefit schemes were undesirable:

“Some retirement benefits are delivered under defined benefit plans. The Board considers that defined benefit pension plans have the potential to create an unreasonable financial burden on the Group. No new members will therefore be admitted to such plans, save in exceptional circumstances.”

This change in practice is consistent with a strengthening of Investor Logic because defined contribution pension schemes provide certainty to shareholders, not executives.

There was almost no guidance on recruitment, retention and severance payments in codes, although most codes required such obligations to be disclosed. Some companies offered recruitment payments to executives, and some of these were not conditional on performance (e.g. Pearson, UK, 2007, p.40). On the other hand, other companies offered recruitment payments that were

conditional on performance (e.g. Newcrest Mining, AU, 2007, p.65). Further, retention payments may be conditional on continuous employment and/or performance (e.g. Qantas, AU, 2007, p.62). Additionally, others did offer severance (or early termination) payments, and were typically equivalent to 12-18 months of fixed or total remuneration (e.g. Newcrest Mining, AU, 2007, p.64). Overall, there is a tension between Corporate Logic (human resources principle) and Investor Logic (pay-for-performance principle) because executives are viewed as a scarce resource that may not be attracted and retained if too many performance conditions are included in their employment agreements.

4.2.2. Short-term Incentive Schemes

There is much discussion on short-term incentive schemes in codes and corporate annual reports. Reflecting the embedding of both Logics in the discourse, these schemes were justified using multiple remuneration principles. However, codes offer few specific recommendations. For example, ASXCGC (AU, 2007, p.36) recommended that, “Incentive schemes should be designed around appropriate performance benchmarks that measure relative performance...” Similarly, ABI (UK, 2002, p.5) encouraged that “Annual bonuses, normally payable in cash... should be related to performance. Both individual and corporate performance targets are relevant...” Notably, some codes recommended that targets should be challenging or stretching. For example, the Financial Reporting Council (UK, 2003, p.21) suggested that, “...performance conditions should be relevant, stretching and designed to enhance shareholder value. Upper limits should be set and disclosed.” Most codes offered no recommendations on how targets should be set and what performance measures should be selected.

It is difficult to determine how many companies do not use short-term incentives because of limited disclosure requirements in NZ, AU (prior to 2004) and the UK (prior to 1995). Not having short-term incentives for all executives would be consistent with Corporate Logic, but such a practice was almost unheard of among companies. In a rare example, Associated British Foods (UK, 1998, p.24) all but rejected short-term incentives: “Performance related bonuses are not given, other than in exceptional circumstances...” Further, there was variability between remuneration packages of executives in the same company. For instance, Antofagasta (UK, 2007, p.71) did not award annual bonuses to the executive chairman, but they did award annual bonuses to other senior executives. More commonly, companies had a range of short-term incentive schemes that were applicable for the Chief Executive, executive directors and executives.

Companies used a range of different performance measures as part of their short-term incentive schemes including financial, non-financial and market-based measures (e.g. British American Tobacco, UK, 2007, p.60). Most companies gave financial measures a greater weighting than other measures. For example, BlueScope Steel (AU, 2007, p.48) stated, “At the senior executive level, 60% of the STI award is based on financial/shareholder value measures with 40% based on KPI metrics.” There was a target for each performance measure which had to be met for bonuses to be awarded. Each performance measure had a range of targets: the minimum, expected (or on-target) and maximum (or stretch). The targets are then equated to bonuses, expressed as a percentage of base salary. It appears that the percentages had increased over time. For example, Tesco’s (UK) maximum value as a percentage of base salary increased from 37.5% in 1998 (p.11) to 150% in 2007 (p.29). These practices were consistent with Investor Logic because of the implicit assumption in target setting that the executive’s effort is directly related to firm performance.

Short-term incentives were normally paid in cash immediately after the executive’s performance had been evaluated and the target had been deemed to be met. However, short-term incentives might also be paid as restricted shares or share options and a portion of the award might be deferred. In some companies, if executives chose to defer a portion of the award, then an additional award would be made (this is known as ‘matching’). While most AU and NZ companies had simple short-term incentive schemes, most UK and some AU companies (particularly in 2007) had complex short-term incentive schemes including the use of deferral and matching (e.g. Sainsbury J, UK, 2007, p.38; Telstra, AU, 2007, p.96). The practice of deferring a portion of short-term incentives may be justified with the agency principle (e.g. Cadbury Schweppes, UK, 2007, p.62) or human resources principle (e.g. Westfield Group, AU, 2007, p.101). Overall, most short-term incentive schemes and related justifications were consistent with both Logics.

4.2.3. Long-term Incentive Schemes

Long-term incentive schemes are justified with agency and pay-for-performance principles by codes issuers. This is consistent with Investor Logic. Most commonly, long-term incentives are often conceptualised as a means for aligning executives’ interests with those of shareholders. For example, IFSA (AU, 2004, p.29) argues, “The granting of a right to equity participation, subject to appropriate performance hurdles, assists in aligning the interests of executives and shareholders.” Total shareholder return was often recommended as a performance measure. However, code issuers did not provide a lot of specific guidance on target setting, the level of award, type of payment (cash or shares), and vesting period. Crucially, most code issuers did not discuss the difference between awarded and realised remuneration. Companies are required to disclose the estimated value of

long-term incentives when awarded to executives, but executives may never realise this value if targets are not met. This can lead to a perception of rewards for failure if executives are awarded long-term incentives when firm performance has declined. However, executives will only realise value if firm performance improves.

All companies appeared to have had long-term incentive schemes, although this finding is not definitive due to limited disclosure in older annual reports. Consistent with both Logics, companies used a variety of remuneration principles to justify their long-term incentive schemes. As a case in point, Fisher & Paykel Healthcare (NZ, 2007, pp.30-31) justifies their share option plan using both the human resources and agency principles:

“The [remuneration] policy includes providing performance incentives which allow executives to share in the long term success of the Company and share option plans intended to encourage the retention of senior management and increase the commonality between the interests of management and shareholders.”

The most striking aspect of Fisher & Paykel Healthcare’s remuneration policy is the phrase “... which allow executives to share in the long term success of the Company”. This suggests that executives did not control firm performance. Instead, profits were shared between shareholders and executives. This conceptualisation of long-term incentives is consistent with Corporate Logic. However, most companies emphasise the agency principle over other remuneration principles when justifying their long-term incentive schemes (e.g. Telecom, NZ, 2007, p.89), which is consistent with Investor Logic.

Long-term incentive schemes that AU, UK, and, to a lesser extent, NZ companies adopted were very complex. This was compounded by most companies adopting multiple schemes. The range of schemes included share options, restricted shares and phantom shares. A few companies also had schemes that allowed executives to purchase shares using interest-free or low-interest loans (e.g. QBE Insurance, AU, 1998, 2007). Further, long-term incentives were usually dependent on one, two or three performance measures including, but not limited to, earnings per share, return on capital employed and total shareholder return. Some targets were absolute (e.g. a hurdle), while others were relative. Most AU and UK companies in 2007 had relative targets for total shareholder return. The schemes were often conditional on both award and exercise, although early schemes (in 1989 and 1998) did not have exercise (or vesting) conditions. Amongst AU and UK companies, the levels of awards were expressed as percentage of executives’ base salary (e.g. Legal & General Group, UK, 2007, p.41). Most NZ companies did not explain how the levels of awards were

determined. Similar to short-term incentives, the targets were tied to levels (e.g. minimum, expected and maximum).

Most companies' long-term incentive schemes were indicative of Investor Logic because of the emphasis placed on the agency principle and the use of targets (e.g. on award and on exercise) to control executives. Interestingly, companies provided additional justification of their long-term incentive schemes when the aspects of the schemes were not consistent with Investor Logic. As a case in point, Westfield Group (AU, 2007) explained why they did not use total shareholder return as a performance measure. Essentially, Westfield Group challenged the legitimacy of Investor Logic because rejecting total shareholder return as a performance measures, implying that the market (i.e. investors as a collective) cannot accurately assess firm performance. They (AU, 2007, p.102) justified their decision as follows:

“The Committee... rejected the use of a TRS [total return to shareholders] based hurdle... Although the Westfield Group... has a well established record of delivering increases in share price over time, the philosophy of the Group has been... that the focus of the executive team should remain on the underlying business and not on the price of the Group's securities... The Committee is of the view that if the management team maintains its intensive focus on these fundamentals, security holders will be rewarded, over time, by superior market performance.”

Having minimum shareholding requirements for executives were not recommended by most code issuers and were not adopted by many companies. However, minimum shareholding requirements were encouraged by the ABI (UK, 1999a, 2002, 2005, 2007), and adopted by some UK companies. Executives were usually required to set aside a portion of their salaries and/or annual bonuses to acquire shares. Minimum shareholding requirements were often specified as a percentage of salary (e.g. Cadbury Schweppes, UK, 2007, p.62). The agency principle is used to justify minimum shareholding requirements (e.g. Unilever, UK, 2007, p.51). Unlike other incentive schemes, minimum shareholding requirements create downside risk for executives because they cannot lower their shareholding below the minimum and they have to acquire more shares if share prices fall. Forcing executives to acquire shares is consistent with Investor Logic, not Corporate Logic. However, some companies partially negate this downside risk by requiring executives to hold a minimum number of shares (e.g. Standard Chartered, UK, 2007, p.77). Further, minimum shareholding requirements may be symbolic if the minimum is immaterial, or if executives are granted large number of shares (via long-term incentive schemes).

4.2.4. Mix and Level of Variable and Fixed Remuneration

There was no precise mix of fixed and variable remuneration that was recommended by codes issuers or desired by companies. Many codes include no guidance on what mix is appropriate or how to decide what is the appropriate mix. For example, the ASXCGC (AU 2003, p.55) simply observed that “Most executive remuneration packages will involve a balance between fixed and incentive pay”, but did not define “balance”. Most companies only disclosed their actual mix of fixed and variable remuneration for executives, although some AU and UK companies in 2007 did disclosure the desired mix (e.g. Standard Chartered, UK, 2007, p.74). Typically, the mix was justified by the market principle and reference to the norm that the proportion of variable remuneration increases with seniority (e.g. QBE Insurance, AU, 2007, p.63). Further, the proportion of variable remuneration appeared to be increasing over time. For example, Unilever (UK, 2007, p.51) stated, “The Committee decided not to increase the salaries in 2007 in order to place more emphasis on performance related pay and less on fixed pay.” Overall, the desired mix tends to be weighted towards variable remuneration, which is consistent with Investor Logic.

Most code issuers did not provide specific recommendations on how companies should determine the level of fixed, variable and total remuneration. However, most companies did describe and justify how the level of each component of remuneration was determined, but they did not discuss how they positioned the level of total remuneration. For example, Legal & General (UK, 2007, pp.51-52) disclosed that the CEO’s salary was positioned “at around the mid-market level relative to the FTSE 100”, short-term incentives had an expected value of 75% of salary and a maximum value of 125% of salary, and long-term incentives had an expected and maximum value of 200% of salary. This remuneration policy was typical amongst AU and UK companies, where variable remuneration was tied to fixed remuneration. NZ companies provided insufficient remuneration disclosure for any inference to be made. The standard remuneration package for executives is inconsistent with Corporate Logic, where executives are conceptualised as stewards (e.g. intrinsic motivation is greater than extrinsic motivation). On the other hand, it is consistent with Investor Logic, where executives are conceptualised as agents (e.g. extrinsic motivation is greater than intrinsic motivation).

However, there appears to be a fundamental flaw in the standard remuneration package as the market principle overrides the other remuneration principles because most companies positioned the level of total remuneration at the median or above. This flaw is known as the ratchet effect (or the Lake Wobegon effect). Few companies had remuneration policies that prevented them from contributing to an upward ratchet of the level of executive remuneration. A rare exception was

British Sky Broadcasting (BSkyB, UK, 2007).⁴ They (2007, p.44) stated that, “Pay is very competitive if BSKYB’s stretching targets are delivered, but if these targets are not met, the ‘guaranteed’ elements of pay are below market norms.” According to Corporate Logic, the fairness principle should act as a counterweight to the human resources and market principles (cf. the UK’s Sainsbury J’s decision to increase their CEO’s base salary). Accounting for employees’ working conditions should prevent above-average increases in executive remuneration, but few companies had the fairness principle built into their remuneration policies and practices. Thus, the version of Corporate Logic embedded in the discourse on executive remuneration might be weak or symbolic.

Overall, the main similarity between codes and corporate annual reports was that most of the narrative on executive remuneration was concerned with short- and long-term incentives. The main difference was that codes’ recommendations were non-specific and brief, whereas companies’ descriptions were high nuanced and lengthy (particularly in AU and UK 2007 annual reports). Further, AU, NZ and UK organisational texts had a common language for conceptualising executive remuneration with a strong emphasis on performance-based remuneration. Notably, AU and UK texts had much lengthier narratives on executive remuneration (except UK 1989 annual reports and AU 1998 annual reports) than NZ texts. In addition, the main similarity between the oldest and most recent organisational texts was that, once again, there was a common language. More recent texts appeared to be developed from older texts. For codes, there were no major differences. For companies, the main trend was that their executive remuneration practices began increasingly complex over time. By 2007, most AU and UK companies had adopted multiple short- and long-term incentive schemes and there were no companies left that rejected performance-based remuneration (e.g. Associated British Foods, UK, 1998). Thus, while Investor Logic and Corporate Logic co-exist in organisational texts, Investor Logic is stronger than Corporate Logic.

5. Discussion

The process by which remuneration committees make decisions is driven by the desire to maximise shareholder value both in the near and distant future (i.e. efficiency), as well as the desire to have their decisions perceived to be legitimate by shareholders, executives, other directors and, to a lesser extent, non-shareholding stakeholders (i.e. legitimacy). Competitive and institutional pressures influence what is perceived as efficient and legitimate because people’s beliefs (or preferences) are embedded, not autonomous (Cyert and March, 1992; March and Simon, 1993). However, there is a distribution of beliefs. Within this process, there is a tension between efficiency and legitimacy because directors and others have different beliefs about what is efficient.

⁴ British Sky Broadcasting is not part of the sample. However, this example is included here due to its significance.

Put differently, believers in Corporate Logic and Investor Logic have different perceptions of what is the appropriate means to achieve shareholder value maximisation.

However, both Logics can co-exist in the discourse on executive remuneration because almost all executive remuneration practices can be justified with either Logic. Believers in Corporate Logic are satisfied with executives receiving short- and long-term incentives because they perceive these incentives to be necessary to attract and retain talented executives and to pay executives at the market rate (Ogden and Watson, 2011). Believers in Investor Logic are satisfied with executives receiving short- and long-term incentives because they perceive these incentives to be necessary to motivate executives and align executives' interests with those of shareholders. Further, while public outrage over rewards for failure, corporate scandals and financial crises have resulted in increased remuneration disclosure requirements and shareholder rights, it has not altered the process by which executive remuneration is determined. If anything, public outrage has resulted in the entrenchment of the remuneration principles, the standard remuneration package and the process for determining remuneration.

From an institutional logics perspective, the standard remuneration package for executives appears to be mad or insane. Corporate Logic implies that boards should hire executives that are stewards, pay them competitively and then replace them if their performance is below expectations. For believers in Investor Logic (e.g. Bebchuk and Fried, 2004; Jensen et al., 2005), such an approach is mad because they believe that executives and employees are opportunistic and extrinsically motivated. However, empirical evidence from the management and psychology literature indicates that people behave like agents and stewards as well as in other ways (Furnham, 2005; Hernandez, 2012). For example, in experimental research, Fong and Tosi (2007) found that irrespective of whether monetary incentives were offered in a task, high conscientiousness participants exhibited very high levels of effort and task performance. Therefore, boards should focus their efforts on identifying executives that are stewards or exhibit high conscientiousness, rather than hiring charismatic but narcissistic executives (Khurana, 2002).

On the other hand, Investor Logic implies that boards should hire executives and only pay them grandly if firm performance improves. The standard remuneration package for executives appears to be consistent with Investor Logic. However, it is not because of the underlying but unreasonable assumption that executives are capable of choosing the course of action that will maximise their short- and long-term incentive payments. The rationality of executives is bounded (March and Simon, 1993). As the standard package includes multiple short- and long-term incentive schemes,

particularly in AU and UK companies, executives are faced with an incredibly complex optimisation problem. Faced with such complexity, executives are likely to heavily discount the value of long-term incentives and focus on the short-term (Pepper et al., 2012). Therefore, the standard remuneration package should be simplified. Base salaries plus a portion of profit is sufficient as long as directors, who are independent, monitor executives diligently and the company's accounts are audited. Directors can simply replace executives if they focus too heavily on the short-term at the expense of the long-term.

In 2007, no large listed companies in AU, NZ and the UK had executive remuneration practices that were as simple as described above. The standard remuneration package appears to be institutionalised. This means codes issuers and companies cannot conceive of any alternatives. While Investor Logic appears to be stronger than Corporate Logic, Corporate Logic may be stronger because the outcome of this complexity may be executives being paid comparably to their peers irrespective of firm performance (Ogden and Watson, 2011). However, a definitive conclusion is not possible because the distribution of beliefs among directors, executives, investors and others is not known. Further research on the distribution of beliefs is required to gain additional insight into the process of remuneration decision-making.

The institutional identities of the non-executive director, the board and the remuneration committee constrain directors' abilities to make remuneration decisions that do not fit with these identities. Lok (2010, p.1308) argues, "institutional logics not only direct what social actors want (interests) and how they are to proceed (guidelines for action), but also who or what they are (identity)." However, institutional identity as a concept has rarely been studied in prior research on corporate governance (cf. Lok, 2010). Belief in shareholder value maximisation and performance-based remuneration is all but required for the non-executive director (Lok, 2010; Pye, 2000). Also, codes portray the non-executive director as both a 'judge' and 'problem-solver'. For example, the UK's Financial Reporting Council (2006, p.3) states, "...non-executive directors should constructively challenge and help develop proposals on strategy... [and] scrutinise the performance of management..." As a problem-solver, the remuneration committee has a limited toolkit (e.g. short- and long-term incentive schemes). Even if the remuneration committee does not believe that performance-based remuneration will alter executive behaviour, their institutional identity requires that they use it. Further, rejecting performance-based remuneration is akin to the remuneration committee rejecting their identity and ability to solve problems.

Remuneration disclosures are part-factual and part-rhetorical. In particular, the remuneration principles are truisms that cannot be easily refuted. It is unlikely that investors, regulators and others will argue that companies should not attract and retain talented executives or that companies should not remunerate executives for their individual contributions to firm performance. Arguing against the remuneration principles would constitute a rejection of the institutional identities of directors and executives as ‘problem-solvers’, who are capable of maximising shareholder value. This is unlikely given that both Corporate Logic and Investor Logic have become the institutionalised discourse on executive remuneration (Green et al., 2008; Lok, 2010; Zajac and Westphal, 2004). The findings presented in this paper support this conclusion.

6. Conclusion

The present study shows that there is shared understanding of executive remuneration among code issuers and companies in AU, NZ and the UK. At the core of this shared understanding are the remuneration principles (except the fairness principle). The remuneration principles are closely tied to executive remuneration practices. The human resources and market principles are tied to base salaries and recruitment and retention schemes. For companies, the human resources principle can be used to justify paying executives above the median relative to peers. The agency, motivation and pay-for-performance principles are tied to short- and long-term incentive schemes. However, it is not often this straightforward. Code issuers and companies use each of the remuneration principles to justify many different executive remuneration practices. This illustrates the flexibility of the remuneration principles. First, the remuneration principles are difficult to dispute. Second, the remuneration principles are also open to interpretation. Notably, code issuers contribute to this flexibility because their recommendations are principle-based, non-specific and often unrestrictive with respect to executive remuneration practices.

Corporate Logic and Investor Logic are deeply embedded in this discourse on executive remuneration. Both Logics provide a common thread that ties executive remuneration principles and practices inextricably together. This is an intriguing finding because Corporate Logic and Investor Logic have opposing assumptions about how executives should behave. It appears that competitive and institutional pressures have compelled companies to adopt executive remuneration practices that are consistent with both Logics. Further, the institutional identity of non-executive directors compels them to adopt these practices, and they manage tensions by prioritising the remuneration principles. However, directors, code issuers, investors and others are urged to reconsider their beliefs and take a simpler approach to executive remuneration. A simpler approach

does not constitute a silver bullet or the Holy Grail, but it is more transparent and its motivational effects are no worse than current practices.

Further official inquiries in the vein of the UK's Greenbury (1995) report are necessary in order to illuminate the difficulties boards and remuneration committees experience in making and reporting remuneration decisions. Code issuers should reconsider their support for the human resources/market principles because of the ratchet effect. It seems unreasonable to expect all companies to pay competitively because, by definition, some executives must be below average. Similarly, they should reconsider their support for the agency/pay-for-performance principles. The empirical evidence is unequivocal: Companies that adopt performance-based remuneration do not necessarily maximise shareholder value (Rost and Osterloh, 2009; Tosi et al., 2000; Devers et al., 2007). Finally, code issuers should be careful in how they phrase their recommendations in order to avoid boilerplate language (e.g. "attract, motivate and retain") being propagated.

Directors and executives should reconsider their beliefs. Drawing on the sampled corporate annual reports, it appears that directors believe that the executives they hired were stronger performers, deserving of remuneration that was set at the median or higher relative to their peers. This line of reasoning could result in a ratchet effect. An alternative explanation is that the sampled companies had outperformed their competitors, explaining why they recommended above-average remuneration, but this is unlikely. Thus, directors should reconsider their beliefs and the executive remuneration practices that they currently use.

Executives are portrayed in both codes and corporate annual reports as being capable of maximising shareholder value, but only if they are coerced by short- and long-term incentive schemes. However, it is likely that executives are motivated by a range of extrinsic and intrinsic rewards. Performance-based remuneration is the only or best means of motivating executives. Thus, executives should reconsider their beliefs and, if they do not already, discuss with their boards what motivates them. Perhaps, executives should reject some components of their remuneration packages that cannot realistically have any effect on their behaviour.

When studying recent trends in the diffusion of Corporate Logic and Investor Logic, there are at least three opportunities for future research. First, how AU and UK companies change their discourse on executive remuneration following a large negative shareholder vote on their remuneration report should be studied. Such research would generate insight into how competitive and institutional pressures influence companies and how they respond to these pressures. Second,

trends in companies' desired and actual mix of fixed and variable remuneration should be tracked. This will show how support for Corporate Logic and Investor Logic waxes and wanes over time. Third, companies' corporate objectives and performance measures should be studied. The discourse analysis hinted that some companies had a mismatch because their mission statements and performance measures (not reported in the findings section). This would build on Fiss and Zajac's (2004; 2006) and Zajac and Westphal's (1995; 2004) research on the symbolic and substantive nature of institutional logics.

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Appendix: List of Codes and Corporate Annual Reports

The appendix detailed references for the sampled codes and corporate annual reports.

A. Codes

A.1. United Kingdom

- Association of British Insurers (1993). *Share Scheme Guidance - A joint statement from the investment committees of the ABI and NAPF*. London: Association of British Insurers.
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B. Corporate Annual Reports

B.1. United Kingdom

Companies	1989	1998	2007
Antofagasta	✓	✓	✓
Associated British Foods	✓	✓	✓
British America Tobacco	✓	✓	✓
Cadbury	✓	✓	✓
Legal and General Group	✓	✓	✓
Pearson	✓	✓	✓
Sainsbury J	✓	✓	✓
Standard Chartered	✓	✓	✓
Tesco	✓	✓	✓
Unilever	✓	✓	✓
Xtrata		✓	✓

B.2. Australia

Companies	1989	1998	2007
Bluescope Steel*		✓	✓
Brambles		✓	✓
Newcrest Mining		✓	✓
Qantas		✓	✓
QBE Insurance		✓	✓
Telstra Corporation		✓	✓
Toll Holdings		✓	✓
Westfield Holdings		✓	✓

Westpac Banking Corporation		✓	✓
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* Note: Bluescope Steel was part of The Broken Hill Proprietary Company (BHP) in 1998. Thus, the 1998 annual report is BHP's.

B.3. New Zealand

Companies	1989	1998	2007
Air New Zealand		✓	✓
BIL International		✓	✓
EBOS Group		✓	✓
Fisher and Paykel Healthcare**		✓	✓
Guinness Peat Group		✓	✓
Hellaby Holdings		✓	✓
Michael Hill International		✓	✓
Property for Industry		✓	✓
Sky Network		✓	✓
Steel and Tube		✓	✓
Telecom Corporation of N.Z.		✓	✓
The Warehouse		✓	✓
Tourism Holdings		✓	✓

** Note: Fisher & Paykel Healthcare was part of Fisher & Paykel Industries in 1998. Thus, the 1998 annual report is Fisher & Paykel Industries'.